Annual Report

For Year Ending
December 31, 1989

Alberta
AUTOMOBILE INSURANCE BOARD

MINISTER OF
CONSUMER AND CORPORATE AFFAIRS

229 Legislature Building, Edmonton, Alberta, Canada T5K 2B6 403/427-2305 Fax 403/422-6997

The Honourable Dr. David J. Carter
Office of the Speaker
Legislative Assembly of Alberta

Sir:

I have the honour to submit the Annual Report of the Alberta Automobile Insurance Board for the year ending December 31, 1989.

With sincere regards,

Dennis Anderson
Minister

90-063941

Alberta
AUTOMOBILE INSURANCE BOARD

19th Floor, 10025 Jasper Avenue, Edmonton, Alberta, Canada T5J 3Z5 403/427-5428

The Honourable Dennis Anderson
Minister of Consumer and Corporate Affairs
229 Legislative Building
Edmonton, Alberta

Honourable Sir:

Pursuant to R.S.A. 1980, Chapter 1-5, the Insurance Act, Section 344(2), we respectfully submit herewith, the eighteenth report of the Alberta Automobile Insurance Board, for the year ending December 31, 1989.

A.H. Wachowich, Chairman

P.G. Galway

J.M. Tweddle

E.P. Chaba

ALBERTA AUTOMOBILE INSURANCE BOARD

1989 ANNUAL REPORT

The Alberta Automobile Insurance Board, constituted under subsection 338(1) of The Insurance Act, is empowered under section 339 thereof to investigate any matters it thinks fit respecting automobile insurance in Alberta, and to approve rates charged by insurers for compulsory automobile coverage under The Motor Vehicle Administration Act.

RATES

Insurers conducting business in Alberta are required by The Insurance Act to report their experience to a Canadian statistical plan, the results of which are compiled annually in an Insurance Bureau of Canada publication called the Green Book. The 1988 statistics in the Green Book, released in November 1989 were analyzed by the Board's actuarial consultant. These analyses were used in weighted proportions with the insurer's own statistics and those of insurance underwriting groups to establish a base for any rate maintenance or rate change to be considered by the Board. After relatively stable experience through the early 1980's, the 1985 results showed a marked deterioration, particularly for Private Passenger vehicles and that trend has continued each year since. Competition served to delay any general increase in premium level until by late 1988 insurers accepted the inevitable and initiated corrective measures with the activity continuing through 1989. The accumulated shortfall and the further deterioration of results during 1989 indicate further increases.

MARKET

The premium increases for Private Passenger vehicles that marked the latter part of 1988 continued through 1989. The accumulated shortfall in premium level could not be remedied by a single increment, setting the stage for periodic adjustments. Further deterioration in results reinforced this expectation.

Industry understands it must proceed in a responsible manner to improve underwriting results, in the interest of market stability and availability. While there has been no serious restriction in the market, insurers are underwriting cautiously. Of paramount concern is the continued deterioration in results which can only signal further increases.

The Facility Association is the industry's mechanism for providing insurance coverage to those consumers encountering difficulty in obtaining the same in the regular market. The Board monitors the Association's program for all coverages. Consistent with the standard market, their experience has continued to deteriorate for Third Party Liability coverage, particularly on Private Passenger vehicles.

MEETINGS

In 1989, the Board held 9 meetings during which 135 applications were examined. This number compares with 84 applications in 1988, 93 in 1987 and 94 in 1986. In 1989, a total of forty-three applications were not approved as submitted. Two applications were declined of which one was approved on appeal. Another forty-one applications were approved subject to specified modifications.

LIAISON

Representatives of the Automobile Insurance Board met with the executive members of the following industry associations during 1989 in order to maintain dialogue with the industry's various component groups:

Insurance Bureau of Canada
Insurance Brokers Association of Alberta
Facility Association
Association of Canadian Insurers

and also attended conferences for:

Canadian Association of Insurance Regulators
Insurers Brokers Association of Alberta

These meetings occurred between September and November 1989.

INQUIRIES

Inquiries and complaints are monitored for unfair and inequitable rules and practices. Complaints are assessed for compliance with rates and rules, and are generally resolved by the provision of a detailed explanation. Appropriate action to rectify the disparity for the individual and/or the general public is taken by the Board. Of the 953 inquiries received by the Board office in 1988, 127 were redirected to other government departments.

BENEFITS

The current compulsory Third Party Liability limit of $200,000 places Alberta at a level at least equal to any other Canadian jurisdiction. However, the Board recognizes the critical importance of adequate limits and continues to maintain its recommendation of a compulsory limit of at least $300,000 which would involve an increase of approximately 4% to the Third Party Liability premium.

STAFF

Susan Steeves, B.A., F.I.I.C., continued as Administrator to the Board. Marlene Boyarzin is the Clerk Typist.

MEMBERSHIP ON THE BOARD

There were no changes in Board membership during 1989.

GENERAL

In accordance with its mandate, the Board continues to review the automobile insurance system in relation to current circumstances and to monitor changes in other jurisdictions and evaluate the effect a similar course might have in Alberta.

The Board has held that the current cost-based rating system produces premiums which are the most fair and equitable to the motoring public as a whole, though the advisability of retaining age, gender and marital status as rating criteria remains in question. The complaint of Adrian Murray Watters v. The Co-operators was the subject of a Human Rights Commission Inquiry in June 1989. It is to determine whether Mr. Watters was wrongfully discriminated against on the basis of gender, in violation of the Individual's Rights Protection Act. The decision which has yet to be delivered will be considered in the Board's deliberations. To date, the only legal precedent is that set by the Ontario Divisional Court and confirmed by the Court of Appeal in September 1989 which holds that the application of the age, gender and marital status factors in the rating of automobile insurance is not in violation of their provincial human rights legislation.

The Ontario Government developed a classification system eliminating the controversial rating criteria which was scheduled for June 1989 implementation. Cross-subsidization poses difficulties in a competitive market and necessitated creation of a reinsurance mechanism for young male operators in order to make these underpriced risks acceptable to the standard market.

The Government withdrew the revised classification system prior to the start-up date and has since concentrated its efforts on development and implementation of a threshold no-fault compensation plan in an effort to control escalating loss costs. There are social and economic arguments as to the relative merits of tort and no-fault compensation systems. Ontario has endured a crisis in the automobile insurance field in recent years and presents a very different set of circumstances to those existing in Alberta. The Board will proceed to evaluate the effect of revisions to the current system and the impact of alternate compensation systems in relation to Alberta's particular situation.

While Alberta is not in a crisis situation, the Board is concerned with the continued deterioration in results and the inevitable increases in premium level. The particularly poor results for third party liability coverage are attributable more to increased severity of losses than to increased frequency. In any case, the problem of escalating loss costs is critical and the solution does not lie with industry. The increase in loss costs can only be stemmed through heightened public awareness and acceptance of the importance of safe driving habits. Only

through a reduction or at least a stabilization in the number and seriousness of collisions can Alberta motorists expect to continue to enjoy among the most attractive automobile insurance pricing in the country.

NOTE:

On March 2, 1990, the Human Rights Commission released its decision, ruling that Co-operators Insurance is in violation of the Alberta Individual's Rights Protection Act in the use of gender as a rating criterion and directed the insurer to cease and desist in the practice. Compliance with the ruling has been stayed pending outcome of an appeal by Co-operators.